INTER-JURISDICTIONAL TAX PROBLEMS

BY

EDWARD WILSON REED

B. Ed., Southern Illinois State Normal University, 1936

A. M., University of Illinois, 1937

AN ABSTRACT OF A THESIS

SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN ECONOMICS
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INTER-JURISDICTIONAL TAX PROBLEMS

Both the Federal Government and the states wield broad tax powers. The power of the Federal Government to levy taxes, like other powers it possesses, is delegated by the Federal Constitution. The power of the states to impose taxes is based on their inherent right of sovereignty. Even though both governments are limited in the exercise of their respective powers of taxation, these limitations are not of such character as to prevent either government from levying nearly every type of tax. Complete separation of revenue sources exists only in the case of the property tax and custom duties.

Conflicting taxation between the Federal Government and the states is a development of the present century. Prior to 1900 the Federal Government received most of its revenue from the tariff, the sale of public lands, and excises. During this same period the states were relying almost wholly on the property tax as a source of revenue. Because of the need for additional revenue after the turn of the century, however, both levels of government either adopted new taxes or developed taxes which hitherto had produced a relatively small amount of revenue.

The same objects or bases may, in general, be legally taxed by both the Federal Government and the states without either being able to prevent the imposition of such tax by the other. The taxation of the same objects by the Federal Government and the states may or may not be unjust; nevertheless, there is no legal bar to duplication. The dual relationship of citizen to both governments renders it just that payments be made for the support of both since every citizen receives benefits from both levels of government. Taxation of the same base by both governments becomes unjust when a tax is imposed by one government without due respect to an equitable distribution of the over-all tax

burden. Criticism can also be made of conflicting taxation when the cost of duplicating machinery becomes excessive.

During the nineteenth century the practice of two or more states levying a tax on the same base was rare since the taxable situs of property, in most instances, was one which did not result in double taxation. With the states making greater use of such taxes as personal and corporate income and transfer of property at death, however, double taxation has not been uncommon. If two or more states levy a tax on the same base, injustice may result. This would be true if some taxpayers were made subject to a particular tax while others were not. Discrimination would result since some people with equal ability would not be paying the same amount of taxes as others.

Our dual system of taxation has been criticized on several counts. The criticisms are: a levy by both the Federal Government and the states has resulted in an excessive burden; the cost of compliance has been increased; tax evasion and avoidance have resulted because of the non-uniformity of state tax laws; the states have resorted to tax competition; the cost of administration has become excessive; and conflicting tax laws have resulted in unequal taxation.

As a solution to the problems arising from conflicting taxation, some form of coordination between the Federal Government and the states has been recommended at various times by leaders in the field of public finance. The reforms proposed have been separation of revenue sources, shared taxes, tax credits, and supplements.

Separation of revenue sources implies that certain fields of taxation would be delegated to either the Federal Government or to the states. The government which is least qualified to administer a particular tax would withdraw from the field. This was the method used prior to the turn of the century, but due to the need for additional revenue it was abandoned. A shared tax is one that is administered

by a single government and part of the proceeds shared with another. The amount could be either a lump sum or a fixed percentage of the amount collected. The argument for sharing is that it would result in tax uniformity, elimination of dual administration, and lower administrative costs.

The use of a credit implies that both the Federal Government and the states would levy the same tax but that the former would credit a certain amount of the tax to the latter. In this way the taxpayer would pay the same amount, but a portion would go to the states if they had enacted a similar tax; if not, the total tax would be collected by the Federal Government. The proponents of the crediting device point out that it would result in a uniform minimum tax throughout the country and would reduce tax competition among the states.

The use of supplements is a system of additional tax rates superimposed by one government on the tax rates of another. The government best qualified to levy the tax would be charged with the administration while the other would add rates commensurate with its revenue needs. The advantages of supplements would be the reduction in administrative costs plus the fact that each government would be free to change its rates.

In this thesis a study is made of six taxes that are levied by both the Federal Government and the states. The study is made of the problems that arise from the overlapping state taxes as well as the duplication that exists between the Federal Government and the states in an effort to determine what form of coordination, if any, is desirable. The taxes are: personal income, corporation income, transfer of property at death, tobacco, gasoline, and alcoholic beverages.

Taxation of Personal Income

One of the most difficult problems which states are called

upon to face in the administration of the tax on personal income is the determination of what income can and should be taxed. In this matter, the courts have allowed the states wide latitude. It is now well established that the state of domicile of the taxpayer may levy a tax on the taxpayer's net income regardless of its source. The state in which the income is earned also has a legal right to tax the same income. Since there are some states which follow each of these principles, double taxation is the result..

It is obvious that if the states which have a tax on personal income levy their taxes on either residence or origin of income, there would be no possibility of double taxation. Some states have realized the injustice of double taxation and have introduced crediting provisions into their income tax laws. Twelve states credit the tax paid by a non-resident to his home state if the latter grants the same privilege to residents of the former. Fourteen states have granted a credit to residents who have paid taxes on their income earned in other states. Either method, the reciprocal tax credit granted to non-residents or the tax credit granted to residents, would eliminate the possibility of double taxation of income. The presence of both, however, fails to solve the problem of double taxation of income. If some states, for example, allow residents a credit for taxes paid to other states and some allow non-residents a credit for taxes levied by the state of residence, residents of the latter deriving their income within the former would not be entitled to a credit in either state. On the other hand, if some states allow residents a credit for taxes levied by other states and some allow non-residents a credit for taxes levied by the state of residence, residents of the former deriving income from within the latter are in a position to escape the payment of both taxes. This problem has been solved in some states by not allowing a credit to residents or non-residents if the other state allows a credit to the same taxpayer.

Even though the income tax is now in effect in nearly

two-thirds of the states, it has not been developed in a majority of them to the point of carrying more than a minor share of the tax load. Those who would like to see the states make greater use of the tax on personal income doubt whether the tax will ever be developed to its fullest potentialities as long as both the states and the Federal Government impose it. The states are placed in a position in which they have to take what is left by the Federal Government. A state can not depart too widely from the general pattern of taxation set by its neighboring states, for to do so would invite tax avoidance. Income possesses mobility, and a state that levied relatively high rates would run the risk of experiencing the movement of taxpayers to more favorable taxing jurisdictions. Many people believe also that the Federal Government has so many advantages that the administration of the income tax should be centralized more and more in its hands.

Separation of sources with exclusive right to levy the tax on personal income delegated to the Federal Government does not seem to be the correct solution to the problems involved in the taxation of personal income. It is very doubtful that the states could afford to withdraw, and since personal income represents one of the best measurements of ability to pay, it seems proper that the states should make greater use of the tax than of some of the more regressive taxes that are used at the present time. Neither does the federal credit seem desirable in this field of taxation. The argument for the use of the federal credit is that it would guarantee a certain portion of the tax base to the states and that it would result in uniformity of state tax rates which in turn would eliminate tax competition. The use of the credit would certainly encourage but it would not guarantee uniformity since the states would still be free to enact additional rates if they so desired. Because the Federal Government could enact additional rates there would be no assurance that the states would be guaranteed a certain portion of the tax base.

The cost of collection would not be reduced under a credit arrangement with the states. It would still be necessary for the states to maintain their own administrative machinery. Double taxation of the same income by the states would still be possible since the problem of jurisdiction would not be solved. Some states would be encouraged to levy a tax on personal income because of the opportunity afforded by the federal credit. Since some of the less wealthy states probably could not afford to support the centralized machinery which is necessary to administer efficiently a tax on personal income, this policy would seem to be unwise.

The use of supplements by the states with collection of the personal income tax entrusted to the Federal Government does not offer a solution to the problems involved in the taxation of personal income. The important problem of double taxation would still be present, and since the tax rates could be determined by the states, tax competition among the states would still be possible. It is doubtful that the use of supplements would reduce the cost of administration. Such an arrangement would probably necessitate the creation of some additional administrative machinery on the part of the Federal Government.

Federal collection with the Federal Government sharing part of the proceeds with the states seems to be the best solution to the problems involved in the taxation of personal income. Such a program would result in the elimination of double taxation. The cost of administration would be reduced as well as would the cost of compliance, and tax competition among the states would no longer be a problem. Since it seems that the personal income tax should play a greater part in the fiscal system of the states, the amount shared should be larger than the amount now received from this source of revenue. This amount could be agreed upon by the states and the Federal Government and could either be a percentage of total tax collections or a lump sum.

Since income seems to be a result of business activity,

it would probably be best to share the proceeds of the tax on personal income with the states on the basis of some index which reflects their contribution to the national income. At the present time there is no perfect index which would reflect each state's contribution. The "income payments" to the states as prepared by the Department of Commerce is probably the best single indicator that we have. This could be used as a basis of sharing until a better measure is devised.

Taxation of Corporation Income

The determination of that part of the income derived from a business conducted in more than one state which may and should be taxed by any one state is the main problem in connection with state taxation of corporation income. The problem was not encountered as long as business was purely a matter of intrastate concern, but since the activities of many corporations have been extended beyond state lines and even national boundaries, the problem becomes more complicated.

The Court has established the principle that the states may tax only that portion of corporation income that is earned within the state. A state may, however, legally tax all of the income of the corporation if the business is incorporated within the state. Most of the states do not take advantage of this, however, for to do so would result in unfair taxation if other states in which the corporation did business also taxed it on the amount of income earned there. In an effort to allocate income for taxation purposes the states have employed two methods, namely, the so-called "separate accounting" and the "formula." Both methods strive to accomplish the same thing, i. e., to apportion the income of the business among the states so that each may tax a proper share of the whole, but no more. The problem is one of allocating income on the basis of the relative contributions of the several states involved in the creation

of that income.

According to the separate accounting method, the business within the taxing state is treated as though it were separate and distinct from the business carried on outside the state. Since most concerns doing an interstate business are unitary in character, much difficulty has been encountered with the separate accounting method of apportionment. As a business becomes more and more highly integrated, the administrative difficulties increase. To make an audit of some of our highly integrated concerns is not only an almost impossible task but it is very expensive. The main objection to separate accounting is that it tends to be arbitrary. Because of this criticism the multiple factor or formula method has been introduced as a method of allocating corporation income among the states for purposes of taxation.

The income of a corporation, according to the formula method of apportionment, is allocated among all of the states in which the business is conducted on the basis of some formula which presumably is an indicator or measurement of the origin of income. The amount of property or sales made within a state is used by some states as a method of apportioning income. At the present time there is great lack of uniformity among the states concerning the use of any one formula. Some states deliberately use an allocation formula that will make accessible to them the largest amount of taxable income. Thus, if the predominant business factor is sales, some states will use it while others may use property since most of the company's property is located within their boundaries. This results sometimes in a corporation being taxed on more than 100 per cent of its income.

Separation of sources does not seem to be the proper solution to the problems of taxation of corporation income. Neither the Federal Government nor the states could afford to withdraw from this field of taxation because of the importance of this source of revenue. The use of the federal credit as a solution also has some shortcomings. Dual

administration would still be necessary, and the costs connected with it would still exist. It would also be necessary for corporations to make a report to the Federal Government and one to each state in which they conducted business. Multiple taxation, which is the most serious problem in the taxation of corporation income, would not be eliminated. Uniformity would not be solved since the states would still be free to enact rates that would be in excess of the established credit if additional revenue were needed.

Federal administration of the tax on corporation income with the states permitted to add rates to be applied to the same base would result in the Federal Government allocating income among the states for purposes of taxation. The success of the arrangement would depend on the allocation formula or formulas used. If all the states agreed to a uniform formula for allocation, this arrangement would have some advantages over the present method of taxation. The uniform formula would result in no corporation being taxed on more than 100 per cent of its income. The cost of collection would probably be reduced, and the cost of compliance would be less. If, however, the states did not agree on the uniform method of allocation and the Federal Government were charged with the administration of the many different formulas, there would probably be no advantages from such a plan. The cost of administration would probably increase, and unfair taxation due to the use of the many different formulas would still be possible.

The plan best suited for improving the effectiveness of state taxation of corporation income would seem to be federal collection and state sharing. Such a plan would result in lower costs of administration since only one government would be charged with the work. Compliance costs would be reduced since a corporation would be required to file only one return instead of several, depending, of course, on the number of states in which the corporation conducted its business. Multiple taxation would be eliminated due to the

fact that a corporation would not be taxed on more than its total income for any given year.

All of the states contribute something to the profits of a large corporation which conducts its business in many states and markets its product in all. Like personal income, corporation income arises from business activity, and, as a result, the amount to be distributed should be shared on the basis of some factor that reflects business activity. As pointed out above in regard to the sharing of personal income taxes, income payments to the states as prepared by the Department of Commerce would probably be the best basis on which to share the revenue. The amount to be shared could either be a percentage collected each year or a lump sum.

Taxation of the Transfer of Property at Death

Two of the most important problems in state taxation of the transfer of property at death are those of jurisdiction and domicile, both of which have resulted in double taxation. The Supreme Court, in a series of decisions beginning in 1925, attempted to eliminate double taxation by assigning a taxable situs to intangibles, but in 1939 the Court reversed this line of reasoning. Beginning also in 1925 the states attempted to eliminate this problem by entering into reciprocal agreements, but since the Court by 1932 had determined the taxable situs of intangibles, the movement was brought to a standstill. In fact, some states believed that the problem was settled and repealed their reciprocal clauses. Even though some of the states still have reciprocal arrangements, double taxation in this field is not uncommon. Since there is no acceptable definition of domicile and the courts seem reluctant to give one, it is possible for a decedent to have more than one, and as a result the estate may be taxed by more than one state.

State administration is characterized by decentralization while that of the Federal Government is centralized. Instead

of a single agency in the states being responsible for the administration of the tax on the transfer of property at death, as in the administration of the income or gasoline tax, a series of agencies participate in the administrative process. In approximately 60 per cent of the states the probate courts are entrusted with administration. In many instances the courts have no financial interest at stake, and as a result the process may be conducted in a haphazard fashion.

The use of supplements with the Federal Government administering the tax would not solve the problems involved in the taxation of the transfer of property at death. Because of the many variations in the various state tax laws, it is very doubtful that federal administration would reduce the cost of administration. The problem of double taxation would be present, and since the states would still be free to determine their own rates and exemptions, the matter of tax competition would still be a problem.

Some coordination has already been achieved between the Federal Government and the states which levy a tax on the transfer of property at death. The coordination was introduced in 1924 and has taken the form of a federal credit. The use of the federal credit was introduced in an effort to eliminate interstate competition for wealthy residents and to encourage uniformity among the states so that taxes on the transfer of property at death could be established as a dependable and productive source of revenue for the states. The absence of such taxes in some states and the non-uniformity of tax rates in others offered an inducement to many wealthy individuals to change their domicile and, in that manner, avoid relatively high taxes.

The adoption of the federal credit has not resulted in the attainment of these objectives. The credit has encouraged the adoption of taxes on the transfer of property at death on the part of the states, but it has not resulted in complete uniformity. The use of the credit does not guarantee

uniformity, for it is still possible for a state to levy taxes which exceed the federal credit if there is need for additional revenue. Since the adoption of the federal credit, the federal law has been amended several times with the rates being revised upward and the exemptions downward. The credit, which does not apply to these revisions, is still tied to the antiquated law of 1926 which has resulted in the Federal Government receiving a large share of the relatively small estates and a relatively small share of the large estates. The opposite should exist since large estates tend to be more migratory than small estates.

The main advantage of federal collection and state sharing in the taxation of the transfer of property at death would be the reduction in the cost of administration and the possiblity of arriving at a uniform rule concerning the taxable situs of intangibles. Since most estates are concentrated in the more wealthy states, sharing on the basis of population or income payments would probably be opposed by those states. Because of the possibility of the states not agreeing on a basis of sharing and the relatively small amount of revenue involved, a sharing program would not seem to be warranted.

As a means of solving the problem of conflicting taxation in the taxation of the transfer of property at death, it seems that separation of sources with exclusive taxation being delegated to the Federal Government offers the best solution. The Federal Government is best qualified to administer such a tax. The question of domicile would no longer be a problem if the Federal Government were given this source of revenue. The possibility of multiple taxation of intangibles because of jurisdictional conflicts would be eliminated. It is true that the states would lose some revenue, but this could be made up from some other source.

A single federal tax would result in a uniform rate which would eliminate tax competition between the states. Consequently, there would be no advantage to wealthy residents

to move from one state to another to escape high taxes. It would result in a greater fluidity of the population since each decedent's estate would be treated the same in every state.

Taxation of Tobacco

State administration of the tax on tobacco has several shortcomings when compared with federal administration. Administration in the states is decentralized since they are forced to collect the tax from a large number of wholesalers and retailers. Collection from a large number of taxpayers results in increased costs and a greater chance for avoidance and evasion of the tax. The placing of stamps on the outside of the cigarette package as evidence of payment of the tax is a relatively expensive process. All of the states but one allow a discount, which ranges from 5 to 10 per cent of the value of the stamps or metering impressions, to the dealers to cover the cost of affixing them to the package. Evasion and avoidance of the tax by purchasing out-of-state have presented a serious problem to the state administrators. Since the Federal Government collects the tax from producers and importers of tobacco products, the chances of evasion are small and the cost of collection is reduced.

Neither the use of the federal credit nor the use of supplements would solve the problems involved in the taxation of tobacco. The use of the credit would result in the Federal Government collecting the tax within the borders of each state which levies such a tax. Since the tax would not be collected at the point of greatest concentration, the cost of collecting the federal tax would increase. Avoidance and evasion of the state tax would still be possible since the states would still be free to exceed the credit if additional revenue were needed. If the Federal Government administered the tax with the states permitted to add rates, the cost of collection would be increased because the tax would be collected from the many dealers in tobacco products in the various states which levy the tax. Avoidance and evasion

of the tax would still be possible since the states would still be free to determine their own rates.

Federal collection and state sharing would have some advantages over the present method of taxation. The cost of collection would be reduced and avoidance and evasion would be eliminated since a uniform rate would be established. The basis on which to share the proceeds of the tax would raise a problem. The amount sold within the states would probably be the most acceptable basis, but the collecting of this information would involve much bookkeeping. Since the tax is relatively unimportant to the states, it seems that a sharing program would not be warranted.

Separation of sources with the right to levy a tax on tobacco delegated to the Federal Government seems to be the best solution. Even though this would involve some loss of revenue to the states, the amount could be made up from other sources of revenue.

Taxation of Gasoline

The states have encountered some problems in the administration of the tax on gasoline. By 1929 when every state and the District of Columbia had enacted a tax on gasoline, evasion became profitable because of increased rates, the lack of uniformity in tax rates among the states, and the increase in the number of distributors. The most serious problem in administration was that of "smuggling" gasoline into those states with a higher tax rate than an adjoining state. Recently the states have resorted to reporting gasoline shipments to each other in an effort to reduce the evasion of the tax due to interstate shipments. This is the most progressive step made in the administration of the state tax in recent years.

The Federal Government has some administrative advantages over the states in the field of taxation of gasoline. The tax is levied on the manufacturers and importers of

gasoline. Tax evasion or avoidance does not present a problem to the Federal Government because of this element of concentration and the uniform rate.

Neither the federal credit nor the use of supplements would seem to be a logical arrangement in the taxation of gasoline. The same criticisms can be made of them here as in the taxation of tobacco. Federal collection and state sharing would have some advantages over the present method of taxation. Since the Federal Government collects the tax from a relatively few taxpayers, the cost of administration would be reduced. The problem of evasion would no longer be present since the tax would be uniform.

A sharing program would not take into consideration the needs of the states. Some states entered the highway building program late and as a result need more funds for this purpose than do some that have a well developed program. If the tax on gasoline were shared on the basis of the amount of gasoline consumed within the state or on the basis of improved roads or on the basis of population, this fact would not be taken into consideration. If the sharing program did provide the funds needed by those states that now levy a relatively high tax on gasoline, some states might receive more than is actually needed for the construction and maintenance of highways.

Separation of sources with the states having exclusive right to tax gasoline used on the highways and the Federal Government having exclusive right to tax aviation gasoline seems to be the best solution. The tax on gasoline forms a relatively important and much needed source of revenue for the states. Only payroll and the general sales taxes are more important to the states as revenue producers. The states lack some of the administrative advantages possessed by the Federal Government, but of the three excises studied, the administration of the tax on gasoline is much more efficient than that of tobacco or alcoholic beverages. The practice of making reports of interstate shipments is a great

improvement in solving the problem of evasion of the tax.

Since the adoption of the first tax on gasoline by the states, the tax has been closely associated with the development of state highways. Even though it is difficult to measure benefit, there is still a belief on the part of the taxpayer that taxes on gasoline are closely related to the benefits he receives. The federal tax on gasoline lacks the more generally recognized benefit aspects that are possssed by the state taxes. It was enacted in 1932 as a matter of expediency, long after the highway construction era began. It is true that the Federal Government does give grants to the states for highway purposes, but these grants are in no way based on the amount of revenue collected from the federal tax on gasoline. The federal aid is given in consideration of broad national interests. The states have been responsible for the construction of highways, and as such, it seems should be free to exploit this field of taxation. The variation of tax rates among the states is not desirable from the standpoint of evasion, but they can be justified because of the varying needs of the states. Some states entered the program of building highways late and, as a result, must make greater use of this source of revenue.

State taxation of aviation gasoline in most instances lacks the benefit principle that is present in the taxation of gasoline used on the highways. A small percentage of the amount collected by the states is spent for aviation purposes. State taxation of aviation gasoline is not as effective as the tax levied by the Federal Government. Thus, it seems that since the aviation industry is one that is national in character and that the Federal Government is best adapted to taxing the fuel, exclusive taxation should be delegated to the Federal Government.

Taxation of Alcoholic Beverages

State taxation of alcoholic beverages has raised some problems. Since the states are forced to collect the tax

from distributors, the cost of collection has been relatively high. The non-uniformity of tax rates has also encouraged consumers to purchase across state lines in order to avoid the tax. To aid in the collection of the tax on alcoholic beverages and to prevent evasion of the tax, the states permit only licensed distributors to import alcoholic beverage products. Even though this may be advantageous to state administration, it results in a higher cost of the product since the licensed importer must be compensated for his services.

The states have used their power of taxation for purposes other than the raising of revenue. This power, coupled with the broad power of control provided in the Twenty-first Amendment has been used to erect tariff barriers against alcoholic beverages produced out-of-state. Higher license fees have been required from out-of-state distributors than from those distributing products produced domestically. This has been especially true in the distribution of wine. Higher tax rates have also been levied on alcoholic beverages produced out-of-state. Since the Twenty-first Amendment has given the states power to control the transportation and importation of alcoholic beverages, the Court has held trade barriers not in violation of the commerce clause of the Constitution. Thus, it seems that the states may indulge in any form of regulation and to any extent they choose.

The establishment of trade barriers is for the most part an offspring of the depression of the thirties. Trade barriers limit competition and make it possible for a sub-marginal producer to remain in business. Even though a few people may benefit temporarily, the public will suffer in the long run, and, in many cases, the barriers injure those whom they were designed to help. The cost of the article is increased, and the consumer is forced to pay a higher price for the product.

The Federal Government has some advantages over the states in the administration of the taxes on alcoholic

beverages. The tax is collected from the distilleries, rectifiers, importers, wineries, breweries, and bonded warehouses. Collecting the tax at the point of greatest concentration offers less chance for evasion of the tax than when it is collected from distributors in the states.

The use of the federal credit or federal administration with the states permitted to add supplementary rates does not seem to present a solution to the problems involved in the taxation of alcoholic beverages for the same reasons as were presented in regard to the taxation of tobacco and gasoline.

Federal collection and state sharing would have some advantages over the present method of taxing alcoholic beverages. The cost of administration would be reduced since the Federal Government would be collecting the tax from a limited number of dealers and at the point of greatest concentration. The uniform rate would result in the elimination of evasion due to purchases made in those states where the tax rate warranted a lower retail price as well as trade barriers due to a tax rate differential. A sharing program should include a provision limiting the states to the use of the power of license, and, in that way, trade barriers would certainly be reduced. This limitation could take the form of a ceiling on the amount the states could charge for a license and probably should not be more than $200. Probably the most acceptable basis on which to share the revenue collected by the Federal Government would be the amount of alcoholic beverages sold in each state. This method, however, would involve much bookkeeping since the information would have to be obtained from the licensees.

Withdrawal of the states from the taxation of alcoholic beverages in favor of the Federal Government would solve many of the problems involved in this field of taxation since the Federal Government has many administrative advantages over the states. If the states retained their right to impose license fees, however, the problem of trade barriers would not be solved. It would seem desirable that the states should

limit the size of their license fees in an effort to reduce trade barriers.

The main objection to giving the Federal Government exclusive right to tax alcoholic beverages is that it would deprive the states of a relatively important source of revenue. The decision as to whether the states should withdraw from the taxation of alcoholic beverages seems to depend upon whether the states could make up the loss from some other source. If the amount could be offset by revenue from the tax on personal income through a sharing program, it would seem that the states should withdraw in favor of the Federal Government. If, however, this loss could not be offset from other sources, federal collection of the tax on alcoholic beverages and sharing a part of the proceeds with the states would be an improvement over the present method of taxation.

None of the coordinating devices offers a solution to the problem of "bootlegging." This can only be solved by intense enforcement and a reduction of tax rates so that it will become unprofitable for the bootlegger to operate.

General Conclusions

Conflicting taxation between the Federal Government and the states and among the various states seems inevitable as long as we have our present system of dual sovereignty with both governments exercising their powers of taxation. Such overlapping has resulted in unjust taxation, high administrative costs, many instances of evasion due to the fact that some governments have levied taxes which they are not able to administer efficiently, high compliance costs, and tax competition. Some may consider them the inescapable price of federalism and resent any change on the ground that centralization violated the concept of "states' rights." It does seem, however, that considerable improvement, which would minimize the results of these conflicts, could be brought about through the development of some of the coordinating

devices studied within the framework of our existing system of government.

Many of the inequities and wastes in state tax administration which are a result of conflicts between the states would be remedied by the adoption of some of the coordinating devices studied. The double taxation of personal and corporation income as well as intangibles transferred at death would be eliminated. The problem of tax avoidance and evasion would be held to a minimum. The cost of administration in many instances would be reduced, and trade barriers that are the result of the taxing powers of the states would be lessened. The solving of these problems would result in a greater freedom of movement of the factors of production which is necessary for the functioning of our national economy.

The adoption of the coordinating devices recommended would not be an easy task. The fiscal systems of the Federal Government and the states would probably be upset for a short time, but any degree of reorganization of our federal and state fiscal systems must be evaluated in terms of the long run. The possibility of the use of any of the coordinating devices requires some willingness on the part of both the Federal Government and the states to compromise and to view our dual system of government as a unit rather than as two distinct, independent, and conflicting governments. To make the tax system less complicated, more efficient, and more productive requires sincere cooperation between the federal and state officials and the public.

VITA

Edward Wilson Reed was born in Galatia, Illinois, on September 5, 1913. His elementary education and high school training were received in the public schools of Galatia. He entered Southern Illinois State Normal University, Carbondale, Illinois, in September, 1932, and was graduated with the degree of Bachelor of Education in June, 1936. In the fall of 1936 he entered the Graduate School of the University of Illinois and received the Degree of Master of Arts in Economics in June, 1937. During the academic years of 1937 to 1941 he was an instructor in the Harrisburg Township High School, Harrisburg, Illinois. He pursued his graduate work at the University of Illinois during the summers of 1939 through 1942. In the fall of 1941 he accepted a position in the Economics Department at the University of Louisville, Louisville, Kentucky. He was granted a military leave of absence in April, 1943, and served in the United States Navy from that date until January, 1946. When released from military duty he returned to the University of Louisville where he taught until June, 1946. Since August, 1946, he has been an Assistant in Economics at the University of Illinois during which time this study was completed.